

Message Text

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C O N F I D E N T I A L ROME 17645

LIMDIS

E.O. 11652: GDS
TAGS: EFIN, IT, IMF
SUBJECT: OSSOLA VIEWS ON GOLD REVALUATION AND PROGRESS ON NEW
RECYCLING FACILITIES

REF: (A) ROME 16949
(B) ROME 17215
(C) EC BRUSSELS 10091

1. SUMMARY. IN TALK WITH TREASATT DECEMBER 23, BANK OF
ITALY VICE DIRECTOR GENERAL OSSOLA MADE FOLLOWING POINTS:

(1) BOI WILL PROBABLY NOT REVALUE GOLD ON ITS BALANCE
SHEET BUT MIGHT EVENTUALLY DO SO IN ITS FOREIGN RESERVES
STATISTICS; (2) SUFFICIENT PROGRESS HAS BEEN MADE AT
TECHNICAL LEVEL ON SOLIDARITY FUND TO PERMIT POLITICAL
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DECISION AT JANUARY MEETING OF G-10 MINISTERS; AND (3)

EUROPEANS CONTINUE TO STRONGLY FAVOR CREATION OF EXPANDED IMF OIL FACILITY FOR 1975. END SUMMARY.

2. OSSOLA WAS SOMEWHAT PUZZLED BY US-FRENCH AGREEMENT AT MARTINIQUE ON REVALUATION OF OFFICIAL GOLD HOLDINGS, SINCE HE THOUGHT THAT AGREEMENT HAD ALREADY BEEN REACHED ON THIS SUBJECT AT JUNE MEETING OF G-10 MINISTERS. HE CONCLUDED THAT MARTINIQUE AGREEMENT WAS SIMPLY RESTATEMENT OF THAT POSITION. IN ANY CASE, ITALIANS WERE NOT DISPLEASED SINCE ITALY'S OWN NATIONAL INTERESTS FAVOR MEASURES TO MAINTAIN OR INCREASE MARKET PRICE FOR GOLD. OSSOLA THOUGHT IT WOULD NOT BE DESIRABLE FOR BOI TO WRITE UP ITS GOLD HOLDINGS ON ITS BALANCE SHEET BECAUSE THIS WOULD CREATE BOOKKEEPING PROFIT WHICH WOULD REDUCE DEBT OF TREASURY TO CENTRAL BANK AND ALLOW TREASURY TO FURTHER INCREASE ITS BORROWINGS. ON OTHER HAND, BANK IS STILL CONSIDERING QUESTION OF SHOWING INCREASED VALUE FOR OFFICIAL GOLD HOLDINGS ON ITS FOREIGN RESERVE STATEMENTS (REF A). IT MIGHT POSSIBLY FOLLOW APPROACH USED FOR GERMAN GOLD LOAN, I.E., GROSSING UP VALUE OF GOLD HOLDINGS BUT INCLUDING EQUIVALENT ADJUSTMENT IN MEDIUM-TERM POSITION SO THAT GROSS OFFICIAL RESERVES WOULD SHOW INCREASE, BUT NET OFFICIAL RESERVES WOULD NOT. NO DECISION HAS BEEN MADE AS YET ON THIS QUESTION.

3. OSSOLA SAID THAT HE HAD SAT IN AS OBSERVER AT DECEMBER 20 MEETING OF G-10 WORKING GROUP ON RECYCLING. HE THOUGHT MEETING HAD GONE RATHER WELL AND THAT TECHNICAL ASPECTS OF SOLIDARITY FUND SHOULD BE SUFFICIENTLY WORKED OUT BY JANUARY MEETING OF G-10 MINISTERS TO PERMIT POLITICAL DECISION IN FAVOR OF U.S. PROPOSAL, IF THERE WAS WILLINGNESS TO DO SO. DECISION BY MINISTERS IN JANUARY SHOULD THEN PERMIT FINAL AGREEMENT ON FUND BY MARCH, I.E., PRIOR TO FORMAL MEETING OF OIL PRODUCERS AND OIL CONSUMERS. OSSOLA SAID THAT, ALTHOUGH IMPLICATIONS OF U.S. INTERVENTION IN IMF BOARD REGARDING 1975 OIL FACILITY HAD BEEN RAISED AT WORKING GROUP MEETING, LITTLE TIME HAD BEEN LOST ON THIS SUBJECT (REF B). HE THOUGHT THAT THESE IMPLICATIONS WERE MATTERS FOR POLITICAL - LEVEL DECISION, AND WORKING GROUP HAD AGREED TO GO FORWARD WITH ITS STUDY OF U.S. PROPOSAL. HE BELIEVED THAT RATHER NEGATIVE GERMAN POSITION

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ON SOLIDARITY FUND AND STATEMENT BY CHANCELLOR HEALEY THAT FUND COULD NOT BE CREATED BEFORE END-1975 (REF C) WERE TACTICAL POSITIONS AND THAT GERMANS AND U.K. WOULD EVENTUALLY GO ALONG WITH CREATION OF FUND. OSSOLA SAID THAT HE UNDERSTOOD THAT AGREEMENT MIGHT BE REACHED ON DRAWING RIGHTS UNDER SOLIDARITY FUND SO THAT INITIAL DRAWING WOULD BE EQUAL TO CONTRIBUTION BUT THAT SUBSEQUENT DRAWINGS EQUAL TO 150 PERCENT AND 200 PERCENT OF CONTRIBUTION MIGHT

BE PERMITTED ON BASIS OF MINIMUM WEIGHTED VOTE OF SOME
FIXED PERCENTAGE.

4. OSSOLA STRESSED THAT EUROPEANS ARE UNANIMOUS IN
FAVOR OF CREATION OF WITTEVEEN II OIL FACILITY FOR 1975.
HE ADDED THAT BANK OF ITALY HAD ATTEMPTED TO DETERMINE
AVAILABILITIES OF IMF FUNDS NEXT YEAR, ALONG LINES
CONTAINED IN U.S. INTERVENTION ON DECEMBER 6, BUT WAS
STILL NOT CONVINCED THAT SUFFICIENT FUNDS WOULD BE AVAILABLE
THROUGH REGULAR IMF CHANNELS. THEREFORE, IT WOULD BE
DESIRABLE FOR IMF TO SOLICIT FURTHER LOANS FROM OIL PRODUCERS
IN 1975. IMF MIGHT ALSO BORROW IN MARKETS, ALTHOUGH OSSOLA
THOUGHT THAT PERHAPS MARKET BORROWINGS SHOULD BE RESERVED
FOR FINANCING SOLIDARITY FUND. VOLPE

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